To the Retirement Income Review Panel

One million self-employed Australians lose

Dear Panel,

I first became aware of the benefit of superannuation as a school-teacher in the late 1970s when the Victorian Education Department offered a very generous 54/11 benefit scheme.

Unfortunately for my bank accounts, after five years as a secondary teacher, I changed career and became a journalist, and in the intervening 40 years, most of that has been as a freelance or self-employed. Had I remained a school-teacher I would have had about $1 million in my superannuation fund. I am now 66 years old and have less than $100,000 – and that is only because I have been making contributions in the past few years.

It is not for want of knowledge. In 1986, I sat in the then Australian Conciliation and Arbitration Commission in Melbourne reporting on the interminable hearings into the ACTU case to have the 3% wage increase establish the compulsory national portable superannuation system we have today.

I often sat next to Bill Kelty and Greg Combet as they instructed me and the Court on the benefits of superannuation.

It was fortuitous that in 1990 I was hired by the Washington DC-based Bureau of National Affairs to be their (permanent, but casual) London Correspondent, contributing to a range of daily, weekly and monthly regulatory reports, including the ‘Pension and Benefits Reporter’.

It was in this capacity that I met Frank Field MP, who had been appointed chair of a House of Commons inquiry into pension funds following the death of Robert Maxwell in November 1991. (Doonesbury-like, Mr Maxwell was discovered to have misappropriated his employees’ superannuation funds).

I advised Mr Field (on an informal basis) about the nature of the independent trustee system in the above-mentioned Australian compulsory superannuation system, as well as the general benefits of the system. I believe I may have provided him contact details for Mr Kelty and Mr Combet.

Returning to Australia in 1995, I continued working primarily as a self-employed journalist, but have had several other jobs including teaching at tertiary institutions which did set aside superannuation payments, and one year with the Metropolitan Ambulance Service, which also set aside superannuation.

The relevance is that I have some superannuation, understand the system very well, but have nowhere near the amount required to retire. To re-interpret a quote from a former Australian Treasurer: “I’ll probably have to work until I’m 80.”

And my experience mirrors that of about 1,000,000 self-employed, casual workers, especially “tradies”, who live cheek-by-jowl and when the paycheque comes, don’t have any spare funds to set aside for superannuation. Women comprise a large part of this number.

Indeed, now that my business has improved and I employ several casual staff, I have discovered that I don’t need to pay superannuation to the poorest and most needy workers in the country – those earning less than $450 a month. I do regardless, because it is the right thing to do.

This is upside-down logic. Those earning least are the ones who need compulsory superannuation the most.

In the early 2000s (see The Age article below) then Treasurer Peter Costello provided co-contribution incentives to increase superannuation savings. The problem was that they required a 10% minimum of external employment. Anyone who was fully self-employed was not entitled to the co-contribution.

A similarly attractive Federal Government co-contribution scheme is required for low-income, casual and self-employed people to encourage serious savings. The Costello schemes were set at dollar-for-dollar up to $1,000 and in the second year rose to a 150% contribution from the Federal Government.

To encourage people with very low superannuation balances (say, below $60,000), the first year of joining such a proposed scheme should be set at 200% of contributions up to $5,000, tapering to 150% in the second and third years of contributions and 100% in the fourth year.

So, if a person with little or no superannuation took advantage of the four year inducement to save money, they could have $10,000 + $5,000 in the first year, $7,500 + $5,000 in the second year and third years and $5,000 + $5,000 in the fourth year for a total of $60,000 and have a start in the superannuation system.

The years might not necessarily be consecutive and entitlements could carry-over, if the individual was not able to set aside the full amount. The numbers could be indexed or re-assessed, pending requirements.

In any case, the current system needs to cater for low-income workers, the self-employed and casual workforce, and if it doesn’t, there will be millions of Australians missing out, due to a mistaken oversight in the original system.

Please see below the 2004 article in The Age and the 2019 letter to the editor of the Australian Financial Review.

Yours sincerely,
David Langsam
Editor/Publisher
Biotech Daily
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Flemington, Victoria

The Age, July 17, 2004

Self-employed find co-contributions don't measure up

Owning your own business does not win any privileges when it comes to superannuation co-contributions, write David Langsam and Max Newnham.

The marked increase in the Federal Government's superannuation co-contribution payment has prompted more questions about the scheme and the status of self-employed workers.

Originally a dollar-for-dollar savings scheme worth up to $1000 for those earning less than $27,500 for the 2003-04 financial year, the co-payment will rise to 150 per cent for 2004-05 for those Australians earning less than $28,000.

But within the Government's co-contribution rules, any taxpayer claiming a deduction on personal tax return as a self-employed person is not eligible to claim the co-contribution.

Under income tax law, a self-employed person is someone who earns less than 10 per cent of total income from an employer that makes super contributions on their behalf.

Self-employed taxpayers can claim 100 per cent of a super contribution up to a maximum of $5000. Only 75 per cent of super contributions made above this limit is tax deductible. The 25 per cent that is not tax deductible is counted as an undeducted contribution.

When the restriction on what self-employed people can claim as a deduction for superannuation is combined with the ban on claiming the co-contribution payment, they could be forgiven for thinking they are being discriminated against.

Business owners in this situation can fix the problem. It does, however, involve setting up a company or trust to operate their business through.

By doing this they would be able to claim a tax deduction for 100 per cent of the contributions up to the age-based limits, and also be eligible for the co-contribution.

The superannuation spokeswoman for the Institute of Chartered Accountants in Australia, Susan Orchard, said the co-contribution scheme discriminated against the self-employed.

She said low-income spouses of high-income earners could gain the greatest benefit from the scheme rather than low-income families.

A worker on $20,000 a year with a high-income spouse could potentially salary sacrifice $19,000 to superannuation and pay no tax on the remaining $1000, which could then be made as a personal contribution to superannuation, thereby earning the Government's co-contribution payment.

"A self-employed person pays more tax and doesn't get the co-contribution," Orchard said. She added that partially self-employed workers might not be eligible because it was not clear whether the income threshold was based on income before or after losses and expenses.

Increasing the upper limit for co-contributions to $58,000 a year meant that more people would question the scheme, she said.

About 6 million Australians earn less than $58,000 a year.

"For some people with more complex work arrangements, there is some confusion," she said.

"A measure like this benefits people with disposable income, but those at the very bottom get little, if any, benefit because they're not going to have $1000."
David Amos, from TaxBiz Australia, says that small-business owners operating as sole traders or partners "are yet again being discriminated against by the Federal Government and the taxing authorities".
"Not only are they not able to get a tax deduction, equal to someone who is employed, or who operated through a company, but they also cannot get the benefit of the co-contribution," he says. "For a government that is supposed to be pro-business, this policy on co-contributions seems to be anti-self-employed small business."
Democrats Senator John Cherry said his party had won amendments from the Government to ensure monitoring of who was picking up the contribution. He echoed Orchard's concerns over the low-income spouses of high-income earners.
Cherry said in some cases that benefit went to women who otherwise had no savings of their own. He also said a matching tax break on employer contributions would benefit low-income earners.
"I think there needs to be a significant reform of superannuation contribution tax," he said.
Labor's shadow treasurer, Simon Crean, has also called for tax reform as preferential to the co-contribution scheme, and expressed concern that the program would benefit the wealthy.
David Langsam is a Melbourne-based writer and Max Newnham is a director of TaxBiz Australia.

https://www.theage.com.au/business/self-employed-find-co-contributions-dont-measure-up-20040717-gdy9x3.html

AFR Letters, Oct 2, 2019

Letters: Voluntary super betrays low-paid workers

Voluntary super the wrong direction

Re: ‘‘Frydenberg hits back over voluntary superannuation’’ and ‘‘Brawl over voluntary superannuation push’’, (September 30).

The idea of making superannuation voluntary for the lowest-paid workers is exactly the wrong direction. Low-paid workers need to be encouraged to have superannuation, not discouraged.

There are two key issues the government and opposition ignore:

1. Employers don’t have to pay “compulsory” superannuation to staff earning less than $450 a month. And it is the employers’ duty to pay. So, if a worker has multiple casual shifts – each with a different employer – they could earn $500 a week and have no superannuation at all.

Many casual and freelance workers complain that they can’t find enough hours to cover basic living costs. On top of that, they miss out on superannuation.

2. There is no incentive for the more than 1 million self-employed workers, tradies, casuals and freelancers to save for superannuation.

If they don’t put money aside themselves, they have little or none. With intermittent work and even less reliable income one can’t commit to a direct debit of 9.5 per cent of annual income.

When Peter Costello was the treasurer, he offered a $1000 incentive to anyone who could put $1000 into superannuation. The following year he raised the government contribution to $1500. But there was a catch. At least 10 per cent of income had to be from an employer, so as a full-time, self-employed journalist I was entitled to nothing.

I have repeatedly proposed to both major parties that they offer an incentive to low paid and self-employed workers to encourage superannuation savings.

That the government is proposing the exact opposite is madness, unless one wants to have all of us on the state pension instead of paying our own way.

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https://www.afr.com/politics/federal/letters-voluntary-super-betrays-low-paid-workers-20191001-p52wn6